Idaho Economic Forecast

The following tables and text are taken from the

January 2006 *Idaho Economic Forecast*,

a publication produced by the

Division of Financial Management.

EXECUTIVE SUMMARY

Idaho's robust economic growth at the beginning of last year and steady growth since then virtually guarantee 2005 was one of the best years in recent memory. Idaho nonfarm employment started the year by growing at a 6.6% annual rate—its strongest showing since the third quarter of 1993. Total employment also topped the 600,000-job threshold in the same quarter. Much of this strength reflected the red-hot construction sector that was creating jobs almost five times faster than during last year's first quarter. Fueling the jump in construction jobs was housing starts in the Gem State, which advanced at an incredible 62.7% annual pace. Boosted by the strong job gain, Idaho nominal personal income grew by a healthy 8.6% annual pace in the first quarter of 2005. Adjusted for inflation, Idaho personal income rose 6.2% in the first quarter of 2005. After enjoying an incredible first quarter, Idaho's economy settled into more sustainable growth during the second quarter of 2005. Idaho nonfarm employment increased at a 2.5% rate. Idaho nominal personal income increased 6.7% in the second quarter while Idaho real personal income grew about half as fast. Idaho nonfarm employment is expected to advance just over 2% in both quarters of the second half of 2005. If this forecast holds, Idaho nonfarm employment will have grown 3.7% in 2005, which would be its best year since 2000. Idaho nominal personal income should rise 7.2%, and real personal income should increase 4.3%. Idaho's economy should continue to grow, but not match the high-water mark it set in 2005. Idaho nonfarm employment should average about 2% growth per year during the 2006-2009 period, raising employment to 661,700 jobs in the terminal year of the forecast. Idaho nominal personal income is forecast to increase 6.4% annually. It is predicted Idaho real personal income will grow 4.1% per year.

It appears the U.S. economy came through this year's record hurricane season in better shape than had been expected. One of the reasons the economy performed well is because it headed into the fall in such strong shape. Fortunately, the damage has been temporary. Nonfarm employment was virtually flat in both September and October, but the employment picture improved in November 2005 with the addition of 215,000 jobs. The national unemployment rate remained below 5% in November 2005. Beginning in 2006, the negative impacts of the storms of 2005 are replaced with the positive influences associated with the rebuilding efforts. For example, this forecast assumes an additional 150,000 housing starts over the next three to four years to replace units destroyed or rendered uninhabitable by the hurricanes and floods. Real GDP is expected to expand 3.4% in 2006, 3.1% in 2007, 3.4% in 2008, and 3.1% in 2009. With the economy once again on solid ground, the nation's central bank will continue raising the federal funds rate in 25-basis point increments through the first half of 2006. The forecast also assumes the existing home mortgage interest rate will rise from 5.9% in 2005 to 7.3% in 2009. The higher interest rates contribute to the gradual decline in U.S. housing starts from 2.1 million units in 2005 to 1.7 million units in 2009. Although the U.S. economy is not expected over the forecast period to replicate 2005's strong showing, growth during the four years following 2005 should be stronger than in the four years preceding it. For example, real output growth averaged 2.3% from 2000 to 2004. It is forecast to be 3.3% over the 2006-2009 period. Employment and real personal income also grow more rapidly in the end of the decade than in the beginning. While the predicted national economic growth is not spectacular, it will be respectable.

IDAHO ECONOMIC FORECAST
EXECUTIVE SUMMARY
JANUARY 2006

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
GDP (BILLIONS)												
Current $	8,747	9,268	9,817	10,128	10,470	10,971	11,734	12,486	13,248	13,920	14,704	15,517
% Ch	*5.3%*	*6.0%*	*5.9%*	*3.2%*	*3.4%*	*4.8%*	*7.0%*	*6.4%*	*6.1%*	*5.1%*	*5.6%*	*5.5%*
2000 Chain-Weighted	9,067	9,470	9,817	9,891	10,049	10,321	10,756	11,140	11,522	11,876	12,278	12,658
% Ch	*4.2%*	*4.4%*	*3.7%*	*0.8%*	*1.6%*	*2.7%*	*4.2%*	*3.6%*	*3.4%*	*3.1%*	*3.4%*	*3.1%*
PERSONAL INCOME - CURR $												
Idaho (Millions)	27,287	29,068	31,290	33,054	33,823	34,660	37,394	40,084	42,918	45,566	48,336	51,307
% Ch	*7.6%*	*6.5%*	*7.6%*	*5.6%*	*2.3%*	*2.5%*	*7.9%*	*7.2%*	*7.1%*	*6.2%*	*6.1%*	*6.1%*
Idaho Nonfarm (Millions)	26,350	28,054	30,448	32,039	32,906	33,915	36,286	38,969	41,838	44,423	47,187	50,149
% Ch	*7.1%*	*6.5%*	*8.5%*	*5.2%*	*2.7%*	*3.1%*	*7.0%*	*7.4%*	*7.4%*	*6.2%*	*6.2%*	*6.3%*
U.S. (Billions)	7,423	7,802	8,430	8,724	8,882	9,169	9,713	10,269	10,938	11,583	12,269	12,990
% Ch	*7.3%*	*5.1%*	*8.0%*	*3.5%*	*1.8%*	*3.2%*	*5.9%*	*5.7%*	*6.5%*	*5.9%*	*5.9%*	*5.9%*
PERSONAL INCOME - 2000 $												
Idaho (Millions)	28,429	29,788	31,289	32,376	32,666	32,846	34,542	36,015	37,669	39,290	40,797	42,323
% Ch	*6.6%*	*4.8%*	*5.0%*	*3.5%*	*0.9%*	*0.6%*	*5.2%*	*4.3%*	*4.6%*	*4.3%*	*3.8%*	*3.7%*
Idaho Nonfarm (Millions)	27,452	28,748	30,447	31,382	31,780	32,140	33,517	35,012	36,721	38,305	39,827	41,368
% Ch	*6.1%*	*4.7%*	*5.9%*	*3.1%*	*1.3%*	*1.1%*	*4.3%*	*4.5%*	*4.9%*	*4.3%*	*4.0%*	*3.9%*
U.S. (Billions)	7,734	7,996	8,429	8,545	8,578	8,689	8,973	9,227	9,600	9,987	10,355	10,715
% Ch	*6.4%*	*3.4%*	*5.4%*	*1.4%*	*0.4%*	*1.3%*	*3.3%*	*2.8%*	*4.1%*	*4.0%*	*3.7%*	*3.5%*
HOUSING STARTS												
Idaho	10,104	10,334	11,469	12,181	13,181	16,300	18,484	23,105	20,055	19,870	19,370	18,495
% Ch	*14.0%*	*2.3%*	*11.0%*	*6.2%*	*8.2%*	*23.7%*	*13.4%*	*25.0%*	*-13.2%*	*-0.9%*	*-2.5%*	*-4.5%*
U.S. (Millions)	1.621	1.647	1.573	1.601	1.710	1.854	1.950	2.061	1.873	1.838	1.813	1.739
% Ch	*9.9%*	*1.6%*	*-4.5%*	*1.8%*	*6.8%*	*8.4%*	*5.2%*	*5.7%*	*-9.1%*	*-1.8%*	*-1.4%*	*-4.1%*
TOTAL NONFARM EMPLOYMENT												
Idaho	520,478	538,103	558,583	568,030	568,023	572,515	588,033	609,974	622,677	635,132	648,975	661,695
% Ch	*2.6%*	*3.4%*	*3.8%*	*1.7%*	*0.0%*	*0.8%*	*2.7%*	*3.7%*	*2.1%*	*2.0%*	*2.2%*	*2.0%*
U.S. (Thousands)	125,924	128,992	131,792	131,833	130,345	129,999	131,475	133,616	135,693	137,599	139,332	140,715
% Ch	*2.6%*	*2.4%*	*2.2%*	*0.0%*	*-1.1%*	*-0.3%*	*1.1%*	*1.6%*	*1.6%*	*1.4%*	*1.3%*	*1.0%*
SELECTED INTEREST RATES												
Federal Funds	*5.4%*	*5.0%*	*6.2%*	*3.9%*	*1.7%*	*1.1%*	*1.3%*	*3.2%*	*4.7%*	*4.8%*	*4.8%*	*5.0%*
Bank Prime	*8.4%*	*8.0%*	*9.2%*	*6.9%*	*4.7%*	*4.1%*	*4.3%*	*6.2%*	*7.7%*	*7.8%*	*7.8%*	*8.0%*
Existing Home Mortgage	*7.1%*	*7.3%*	*8.0%*	*7.0%*	*6.5%*	*5.7%*	*5.7%*	*5.9%*	*6.8%*	*6.9%*	*7.0%*	*7.3%*
INFLATION												
GDP Price Deflator	*1.1%*	*1.4%*	*2.2%*	*2.4%*	*1.7%*	*2.0%*	*2.6%*	*2.8%*	*2.6%*	*1.9%*	*2.2%*	*2.4%*
Personal Cons Deflator	*0.9%*	*1.7%*	*2.5%*	*2.1%*	*1.4%*	*1.9%*	*2.6%*	*2.8%*	*2.4%*	*1.8%*	*2.2%*	*2.3%*
Consumer Price Index	*1.5%*	*2.2%*	*3.4%*	*2.8%*	*1.6%*	*2.3%*	*2.7%*	*3.4%*	*2.6%*	*1.5%*	*2.0%*	*2.2%*

National Variables Forecast by GLOBAL INSIGHT
Forecast Begins the THIRD Quarter of 2005

IDAHO ECONOMIC FORECAST
EXECUTIVE SUMMARY
JANUARY 2006

	2005				2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP (BILLIONS)												
Current $	12,199	12,378	12,590	12,778	12,999	13,176	13,330	13,487	13,644	13,823	14,007	14,207
% Ch	*7.0%*	*6.0%*	*7.0%*	*6.1%*	*7.1%*	*5.6%*	*4.7%*	*4.8%*	*4.8%*	*5.3%*	*5.4%*	*5.8%*
2000 Chain-Weighted	10,999	11,089	11,193	11,277	11,385	11,481	11,569	11,653	11,726	11,822	11,923	12,032
% Ch	*3.8%*	*3.3%*	*3.8%*	*3.0%*	*3.9%*	*3.4%*	*3.1%*	*2.9%*	*2.6%*	*3.3%*	*3.4%*	*3.7%*
PERSONAL INCOME - CURR $												
Idaho (Millions)	39,271	39,914	40,079	41,070	41,804	42,599	43,307	43,963	44,607	45,267	45,885	46,503
% Ch	*8.6%*	*6.7%*	*1.7%*	*10.3%*	*7.3%*	*7.8%*	*6.8%*	*6.2%*	*6.0%*	*6.0%*	*5.6%*	*5.5%*
Idaho Nonfarm (Millions)	37,988	38,770	39,084	40,032	40,779	41,515	42,220	42,840	43,454	44,102	44,740	45,397
% Ch	*4.6%*	*8.5%*	*3.3%*	*10.1%*	*7.7%*	*7.4%*	*7.0%*	*6.0%*	*5.9%*	*6.1%*	*5.9%*	*6.0%*
U.S. (Billions)	10,073	10,221	10,293	10,488	10,683	10,858	11,029	11,183	11,340	11,499	11,661	11,830
% Ch	*2.0%*	*6.0%*	*2.8%*	*7.8%*	*7.6%*	*6.7%*	*6.5%*	*5.7%*	*5.7%*	*5.7%*	*5.8%*	*5.9%*
PERSONAL INCOME - 2000 $												
Idaho (Millions)	35,722	36,013	35,836	36,488	36,921	37,468	37,938	38,349	38,747	39,129	39,476	39,809
% Ch	*6.2%*	*3.3%*	*-2.0%*	*7.5%*	*4.8%*	*6.1%*	*5.1%*	*4.4%*	*4.2%*	*4.0%*	*3.6%*	*3.4%*
Idaho Nonfarm (Millions)	34,555	34,981	34,946	35,566	36,016	36,515	36,986	37,369	37,745	38,123	38,491	38,862
% Ch	*2.3%*	*5.0%*	*-0.4%*	*7.3%*	*5.2%*	*5.7%*	*5.3%*	*4.2%*	*4.1%*	*4.1%*	*3.9%*	*3.9%*
U.S. (Billions)	9,163	9,222	9,203	9,318	9,435	9,550	9,662	9,755	9,850	9,940	10,032	10,127
% Ch	*-0.3%*	*2.6%*	*-0.8%*	*5.1%*	*5.1%*	*5.0%*	*4.8%*	*3.9%*	*4.0%*	*3.7%*	*3.8%*	*3.8%*
HOUSING STARTS												
Idaho	23,211	22,591	24,814	21,802	20,396	19,986	19,893	19,944	19,951	19,926	19,847	19,755
% Ch	*62.7%*	*-10.3%*	*45.6%*	*-40.4%*	*-23.4%*	*-7.8%*	*-1.9%*	*1.0%*	*0.1%*	*-0.5%*	*-1.6%*	*-1.8%*
U.S. (Millions)	2.083	2.044	2.069	2.047	1.967	1.861	1.833	1.829	1.830	1.839	1.839	1.844
% Ch	*24.2%*	*-7.2%*	*5.0%*	*-4.2%*	*-14.8%*	*-19.8%*	*-5.9%*	*-0.9%*	*0.3%*	*2.0%*	*0.0%*	*1.0%*
TOTAL NONFARM EMPLOYMENT												
Idaho	604,587	608,403	611,745	615,160	618,309	621,477	624,225	626,694	630,081	633,354	636,752	640,339
% Ch	*6.6%*	*2.5%*	*2.2%*	*2.3%*	*2.1%*	*2.1%*	*1.8%*	*1.6%*	*2.2%*	*2.1%*	*2.2%*	*2.3%*
U.S. (Thousands)	132,814	133,429	133,961	134,261	134,876	135,460	135,958	136,479	136,911	137,373	137,818	138,291
% Ch	*1.6%*	*1.9%*	*1.6%*	*0.9%*	*1.8%*	*1.7%*	*1.5%*	*1.5%*	*1.3%*	*1.4%*	*1.3%*	*1.4%*
SELECTED INTEREST RATES												
Federal Funds	*2.5%*	*2.9%*	*3.5%*	*4.0%*	*4.4%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*
Bank Prime	*5.4%*	*5.9%*	*6.4%*	*7.0%*	*7.4%*	*7.8%*	*7.8%*	*7.8%*	*7.8%*	*7.8%*	*7.8%*	*7.8%*
Existing Home Mortgage	*5.8%*	*5.8%*	*5.8%*	*6.2%*	*6.5%*	*6.8%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*
INFLATION												
GDP Price Deflator	*3.1%*	*2.6%*	*3.1%*	*2.8%*	*3.1%*	*2.1%*	*1.6%*	*1.8%*	*2.1%*	*2.0%*	*1.9%*	*2.0%*
Personal Cons Deflator	*2.3%*	*3.3%*	*3.7%*	*2.6%*	*2.4%*	*1.7%*	*1.6%*	*1.7%*	*1.7%*	*2.0%*	*1.9%*	*2.0%*
Consumer Price Index	*2.4%*	*4.2%*	*5.1%*	*3.2%*	*2.4%*	*1.2%*	*1.2%*	*1.3%*	*1.4%*	*1.7%*	*1.7%*	*1.8%*

National Variables Forecast by GLOBAL INSIGHT
Forecast Begins the THIRD Quarter of 2005

NATIONAL FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 2005 through the Fourth Quarter of 2009

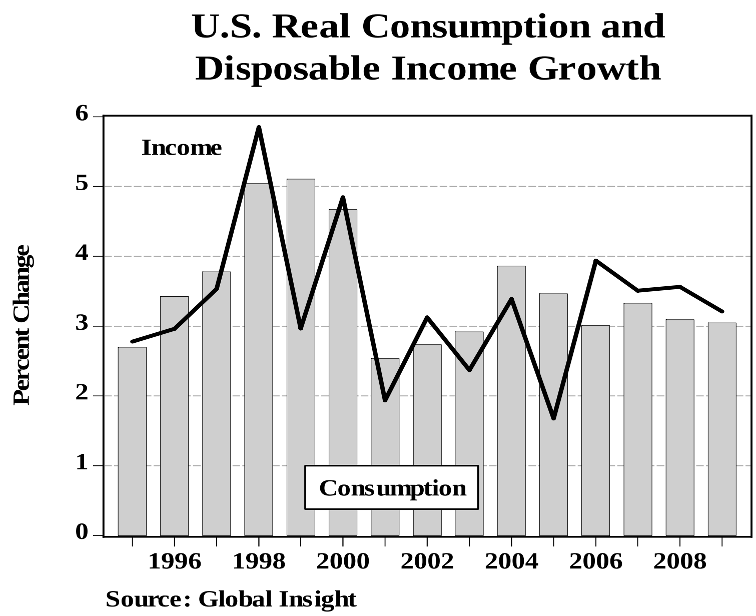
It appears the U.S. economy came through this year's record hurricane season in better shape than had been expected. One of the reasons the economy performed well is because it headed into the fall in such strong shape. For example, real GDP grew at a healthy 4.5% clip (revised up from the preliminary estimate of 3.8%) in 2005's third quarter. Other measures also confirm the economy's strength. National nonfarm employment expanded an average of 198,000 jobs per month from the end of 2004 to August 2005 and the national unemployment rate improved from 5.1% to 4.8% over the same period.

The hurricanes did have impacts on the economy. One the most immediate and widespread impacts was the price of gasoline. Almost over night the price shot above $3 per gallon after Hurricane Katrina shut down Gulf of Mexico petroleum refineries. Fortunately, the damage has been temporary. Experts expected the price to fall to $2.50 per gallon by year's end. However, gasoline prices declined faster than anticipated, dropping below $2 per gallon well before the end of 2005. Nonfarm employment was virtually flat in both September and October, but the employment picture improved in November 2005 with the addition of 215,000 jobs. The national unemployment rate remained below 5% in November 2005. Although official estimates for real GDP in the fourth quarter of 2005 are not available, the expectations for national output have improved. For example, in the previous issue of the *Idaho Economic Forecast*, real output was projected to grow at 2.8% annual pace in the last quarter of 2005. Real GDP is now expected to grow 3% in that quarter.

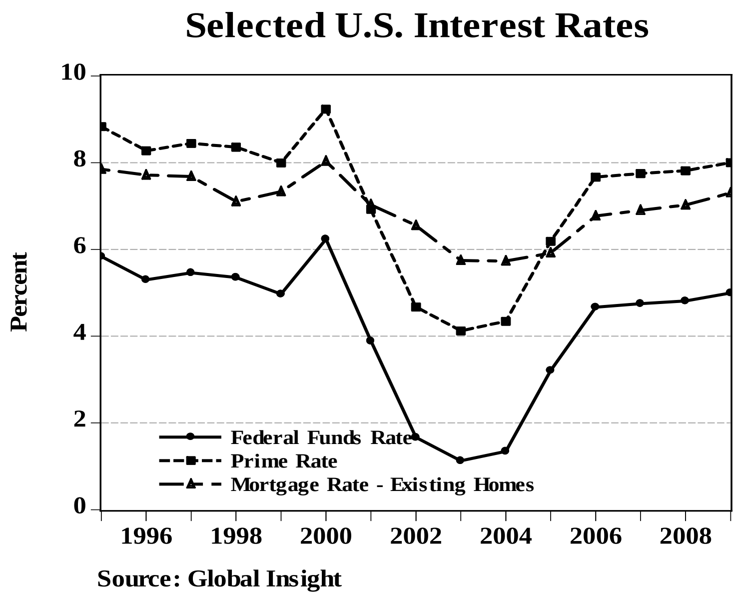
Beginning in 2006, the negative impacts of the storms of 2005 are replaced with the positive influences associated with the rebuilding efforts. For example, this forecast assumes an additional 150,000 housing starts over the next three to four years to replace units destroyed or rendered uninhabitable by the hurricanes and floods. It has been estimated the government's costs of rebuilding the areas hardest hit by the hurricanes will temporarily delay improvements to the federal deficit. However, this additional spending will boost the economy in the near term. Real GDP is expected to expand 3.4% in 2006, 3.1% in 2007, 3.4% in 2008, and 3.1% in 2009. Consumer price inflation jumped 3.4% in 2005 because of surging energy prices. Eventually energy prices will recede and inflation will once again drop below 3%. With the economy once again on solid ground, the nation's central bank will continue raising the federal funds rate in 25-basis point increments through the first half of 2006. The forecast also assumes the existing home mortgage interest rate will rise from 5.9% in 2005 to 7.3% in 2009. The higher interest rates contribute to the gradual decline in U.S. housing starts from 2.1 million units in 2005 to 1.7 million units in 2009.

Although the U.S. economy is not expected over the forecast period to replicate 2005's strong showing, growth during the four years following 2005 should be stronger than in the four years preceding it. For example, real output growth averaged 2.3% from 2000 to 2004. It is forecast to be 3.3% over the 2006-2009 period. Employment and real personal income also grow more rapidly in the end of the decade than in the beginning. While the predicted economic growth is not spectacular, it will be respectable.

SELECTED NATIONAL ECONOMIC INDICATORS

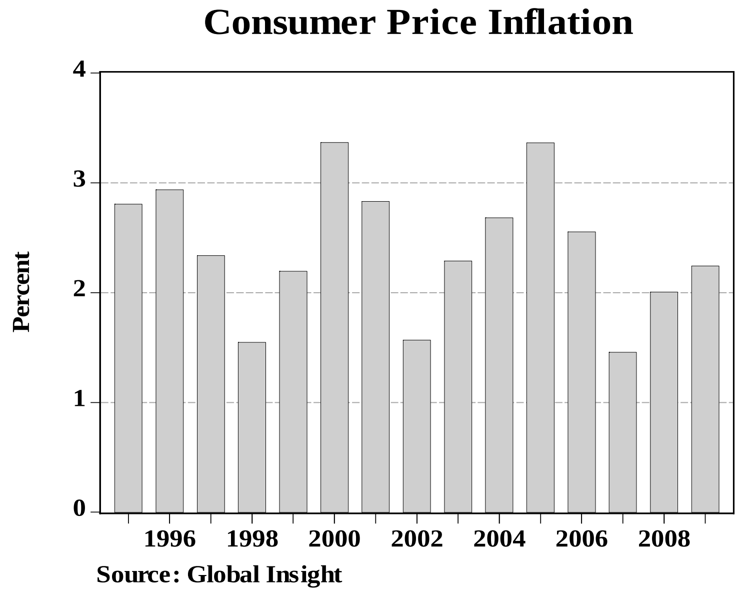


Consumer Spending: Real consumer spending should provide less of a boost to the economy than it has in the recent past. This is a significant change. In each year from 2000 through 2002, real consumer spending grew at least one percentage point faster than real GDP. Thanks to the strong spending, the 2001 recession was mild by historical standards. The gap between spending growth and output growth began to narrow as the current expansion took off. However, after posting gains of 3.9% in 2004 and 3.5% in 2005, real consumer spending is expected to downshift to 3.0% in 2006 in response to rising interest rates and the cooling housing market. The first signs of slower spending were actually expected in the last quarter of 2005. After growing by 3.9% annual rate in last year's third quarter, real spending was estimated to move just 0.1% in the last quarter of 2005. This pause in spending is due to the sharp drop-off in light-vehicle sales following the end of automakers' recent "employee discount pricing" marketing campaigns. It is anticipated light-vehicle sales will drop from an annual rate of 17.9 million units in the third quarter of 2005 to 15.7 million units in the last quarter, with light trucks accounting for most of the drop. On an annual basis, light-vehicle sales are expected to fall from 16.8 million units in 2005 to 16.5 million units in 2006, its weakest showing since 1998. Market saturation is another concern for the automotive sector. From 2001 to 2005, the stock of vehicles has risen 2.2% annually, which is much faster than the 1.2% growth of the driving-age population. Car companies are not taking this situation sitting down, and have already implemented their latest incentive programs. Light vehicle sales should gradually recover after 2006 in response to rising real incomes, but it will be 2009 before total sales surpass their previous cyclical peak of 17.3 million units. Near-term consumer spending will be impacted by household budgets stretched thin by rising energy costs. It has been estimated the share of household disposable income spent on energy will climb to a two-decade high of 5.9%. The price of gasoline has retreated from its post-Katrina peak, but persistently high natural gas prices will cause sticker shock this winter. The share of disposable income devoted to energy should decrease as the oil and natural gas supply situation eases over the next three years. The cooling housing market will also limit consumer spending. Consumer have been willing to save less (and spend more) because rising housing prices served as a kind of savings account that grew without making deposits. Consumers also tapped into their home equity in order to finance their recent spending spree. The forecast of slower housing appreciation suggest this source of financing has run its course. After years of adding debt and emptying their savings, consumers will have to live within their means. As a result, real spending is expected to grow more in line with disposable income than it has in the recent past. Real disposable income is anticipated to increase 1.7% in 2005, 3.9% in 2006, 3.5% in 2007, 3.6% in 2008, and 3.2% in 2009. Real consumer spending should grow 3.5% in 2005, 3.0% in 2006, 3.3% in 2007, 3.1% in 2008, and 3.0% in 2009.



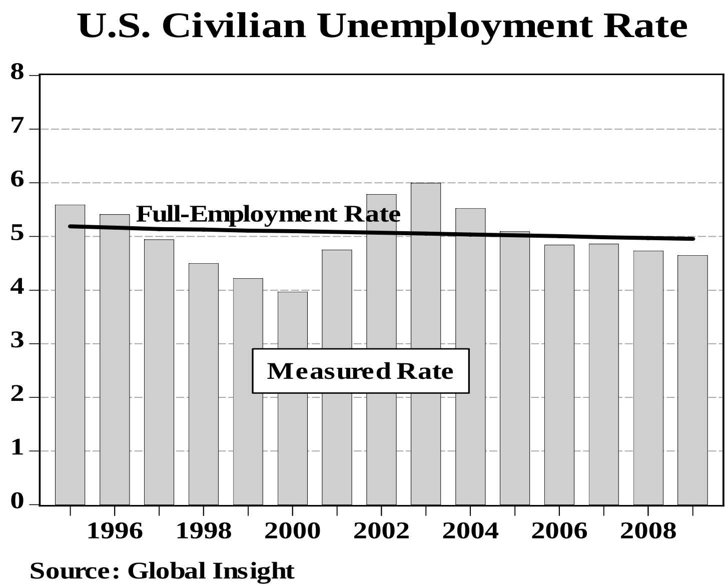
Financial Markets: President Bush appointed Ben Bernanke to replace outgoing Federal Reserve Chairman Alan Greenspan. It is assumed Bernanke will be confirmed by the Senate and start his new job on February 1, 2006. Will the changing of the guard at the central bank bring a change in monetary policy? Not likely. Bernanke and Alan Greenspan are more similar than they are different. Both are "big idea" people who are not afraid to question the conventional wisdom. For example, Greenspan was an early convert to the "new economy" and was quick to recognize the productivity boom of the 1990s. Bernanke identified the risks of deflation in late 2002. More recently, he suggested the global savings glut was the reason for Alan Greenspan's conundrum of low long-term interest rates despite rising short-term rates. With respect to monetary policy, both men believe the Federal Reserve should be flexible, activist, and gradualist. Importantly, both believe the Federal Reserve should not take pre-emptive actions against bubbles, but, instead, should be aggressive in damage control after the bubbles have burst. Although the outgoing and incoming chairmen agree on many things, they do not agree on everything. Perhaps the biggest difference of opinion between the two is over inflation targeting. Bernanke is an advocate of explicit inflation targeting. Alan Greenspan believes setting explicit inflation targets are not a good idea because they could limit the flexibility of the Federal Reserve. While explicit inflation targeting by the Federal Reserve is unlikely (given it would require an act of Congress), the incoming Chairman is likely to encourage the Federal Open Market Committee to be open about its implicit inflation targets and more transparent about how it chooses to achieve those targets than the outgoing Chairman. Given the strength of the economy and increasing concerns about creeping inflation, it is assumed the Federal Reserve will continue raising its bellwether federal funds rate in 25-basis points increments to 4.75% at the end of March 2006, before taking an extended pause. The Federal Reserve is expected to adjust the federal funds rate upwards by an additional 25 basis points in late 2008, and it will remain at 5.00% for the remainder of the forecast. The rising interest rates may help slow the U.S. dollar's recent decline, but it will not reverse it because of the heavy downward pressure from the nation's huge trade deficit. Specifically, the greenback is forecast to fall 2% in 2005, 2.5% in 2006, 6.0% in 2007, 3.6% in 2008, and appreciate 2.1% in 2009. After averaging just below 6% for nearly three years, the 30-year fixed mortgage rate is expected to move upwards to 7.3% by 2007.

Inflation: The inflation outlook has improved slightly. Short-term inflation fears were calmed in late 2005, as crude oil and gasoline prices retreated faster than had been anticipated from their post-hurricane spikes. In addition, recent strong productivity and the decline in unit labor costs have raised hopes that prices will increase slower. The price of crude oil dropped below $60 per barrel and the price of unleaded gasoline declined to around $2.25 per gallon by late November 2005. In an earlier forecast the price of gasoline was assumed to be around $2.50 a gallon at the end of 2005. The lower gasoline price is the result of emergency supplies of oil and refined products from abroad. Unfortunately, natural gas prices are expected to remain high because of reduced production caused by last year's storms. According to the Minerals Management Service, as of November 10, 2005, 40.2% of daily natural gas production in the Gulf of Mexico was shut down. The cumulative hurricane-related production losses are nearly 12% of the Gulf of Mexico's annual production. With the impact of the production losses in the Gulf of Mexico and the stronger winter demand for natural gas, the price of natural gas at the end of 2005 should be about 90% above last year's price. Residential natural gas heating costs are expected to jump about 50% this heating season compared to last year's heating season. However, if the winter of 2005-2006 is colder than normal, natural gas prices will climb even higher. The good news is energy prices are near their peaks, and they should start declining. The bad news is they will retreat gradually. This can be seen in the forecast for the energy commodity component of the consumer price index. This energy price measure rose 17.8% in 2004 and an estimated 22.6% in 2005. Thereafter, it is forecast to decline 1.8% in 2006, 7.4% in 2007, 3.2% in 2008, and 0.9% in 2009. Despite the near-term pressure from rising energy prices, the overall consumer price index should grow modestly over the forecast period thanks to healthy productivity growth that keeps employment costs growing at around 4% annually. Overall consumer price inflation is expected to be 3.4% in 2005, 2.6% in 2006, 1.5% in 2007, 2.0% in 2008, and 2.2% in 2009. The core inflation rate (all items less food and energy) is projected to be 2.2% in 2005, 2.4% in 2006, 2.5% in 2007, 2.5% in 2008, and 2.6% in 2009.

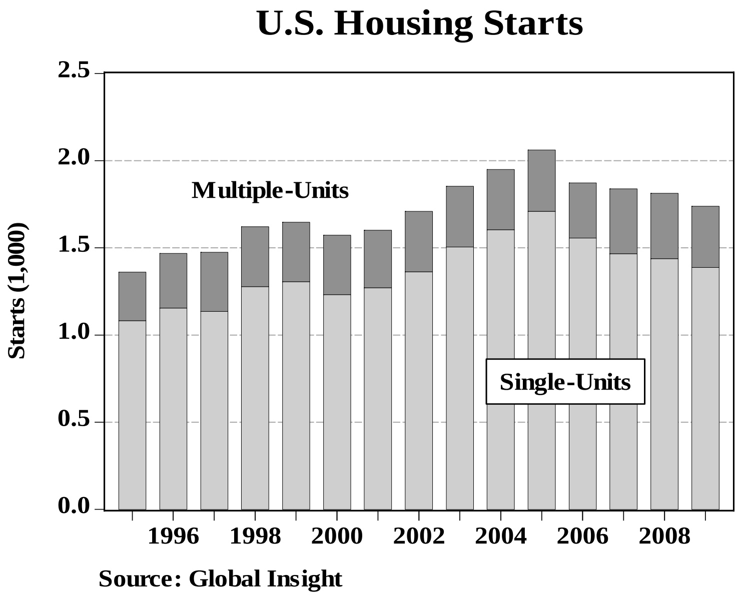


International: Global output growth should maintain an above-trend pace through the next few quarters. On an annual basis, real global GDP is expected to advance 3.3% in 2005 and average 3.2% annual growth during the 2007-2010 period. The United States and China should be the two main engines of global activity, as growth in U.S. domestic demand and Chinese production should remain strong. China will be the global economic growth champion. China's economy should increase 9.3% in 2005, 8.5% in 2006, and average 7.5% annual growth from 2007 to 2010. Other developed economies will grow slower than the global pace. Eurozone growth was sluggish during the first half of 2005, and no marked improvement is foreseen. The region continues to be weighed down by significant economic and political handicaps. As such, real output in the Eurozone is expected to increase just 1.3% in 2005 and 1.6% in 2006, then average 2.0% growth through 2010. The outlook for Japan is brighter than for the Eurozone. The mild upward trend in Japanese consumption, combined with sustained gains in business spending has provided the economy with some much-needed stimulus. Closer to home, the Mexican and South American economies are anticipated to grow faster than the global economy after 2006. Under these conditions, the U.S. trade deficit will grow again in 2006, but will shrink beginning in 2007.

Employment: After a two-month lull, U.S. nonfarm employment increased by a healthy 215,000 jobs in November 2005. This was well above the average monthly job gains of 196,000 for the January-August 2005 period. Battered by the hurricanes that ravaged the Gulf Coast, the U.S. economy eked out just 17,000 jobs in September 2005 and 44,000 jobs in October 2005. The nation's labor market is projected to achieve full employment early in the forecast period thanks to the economy's continuous job production. This a much-welcomed reversal of the situation early in the recovery when dismal job creation caused the unemployment rate to soar. Specifically, the economy experienced no job gains in 2001 and actually suffered losses in both 2002 and 2003. Not surprisingly, the average unemployment rate jumped nearly one percentage point from 3.97% in 2000 to 4.75% in 2001. The unemployment rate continued to rise even after the 2001 recession had ended, hitting 5.99% in 2003. The job situation finally turned around in 2004, as employment grew 1.1%. This was followed by employment growth of 1.6% in 2005. As a result of 2005's healthy job growth the U.S. unemployment rate declined from 5.4% in December 2004 to 5.0% in October 2005. The unemployment rate is expected to decline to 4.84% in 2006, which is below the full-employment threshold. The labor force is anticipated to remain at full employment for the remaining years of the forecast, as the economy creates jobs at about a one-percent annual pace through 2009. While this is the most likely outcome for the employment, it is not the only one. In one alternative, productivity could soar, energy prices could fall, investment could swell, and foreign economies would be more robust. Under these conditions the unemployment rate would fall to less than 4% by late 2008. Another alternative is one where inflation is high and the Federal Reserve boosts interest rates despite rising unemployment. The resulting stagflation would cause the housing sector to decline steeper than had been forecast. In addition, payroll employment growth would stall in 2006 and 2007, and the unemployment rate would exceed its recent highs.

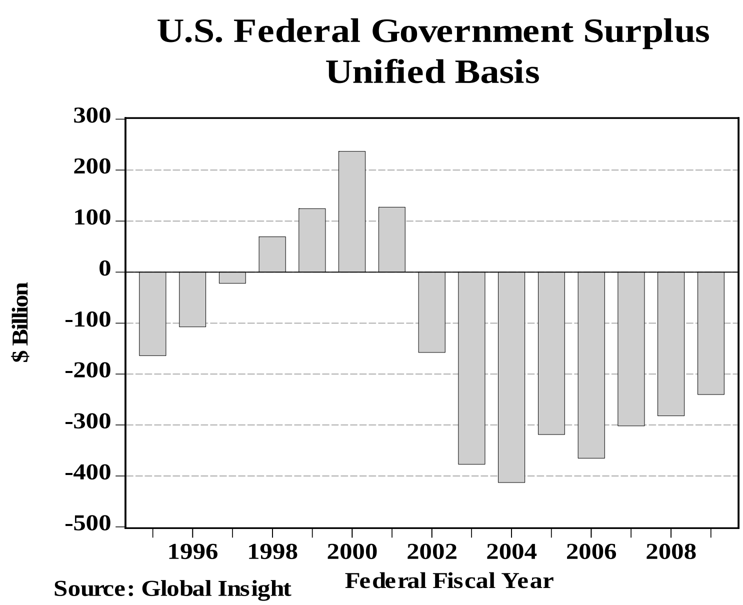


Housing: The U.S. housing industry appears to be in transition. Clear signs of strength have been replaced by mixed signals, suggesting this industry may be losing steam. This is an important change because the housing sector has played a major role in propping up the U.S. economy. Industry data from September 2005 show how conflicting the signals have been. New single family home sales rebounded 2.1% last September, but the improvement paled in comparison to the 11.6% decline in the previous month. Average new home sales in August and September were 6% below the second-quarter estimate. More recently, two articles in the *Wall Street Journal* presented divergent pictures of the housing sector. On November 29, 2005 the paper reported the National Association of Realtors estimated sales of previously occupied homes slowed and the inventory of unsold homes grew in October 2005. However, the next day the *Wall Street Journal* published an article describing the U.S. Department of Commerce's findings that new home sales surged in October 2005. The following day the U.S. Department of Commerce reported U.S. construction spending for the first ten months of 2005 was nearly 9% higher than the previous year. Conflicting signals are common when a sector is in transition. Given the housing sector has been red-hot, it means this sector has probably passed its peak. But what a peak it has been. While 1973 set the all-time record for total housing starts, 2005's single-family starts will blow away all



prior records. Single-family starts should reach 1.7 million, which is 6.6% higher than the previous year. Rising mortgage interest rates will make an encore of last year's showing unlikely, however. United States single-family housing starts are projected to be 1.6 million in 2006, 1.5 million in 2007, 1.4 million in both 2008 and 2009. Total housing start are expected to fall from 2.1 million units in 2005, to 1.9 million units in 2006, to 1.8 million units in 2007 and 2008, and 1.7 million units in 2009. The third quarter of 2005 marked the 15th consecutive quarter that residential investment had been a positive contributor to the nation's GDP growth. It is anticipated that it was also the last quarter it will boost growth for about a year and a half. Fortunately, though, the initial blow from the softening residential sector will be cushioned by the nonresidential construction, whose growth is expected to accelerate from 1.8% in 2005 to 13.6% in 2006.

Government: When President Bush presented his 2006 budget in January 2005, one of his goals was to reduce the U.S. federal budget deficit by half over five years. In order to meet the deficit targets and accommodate higher discretionary spending on defense, extensions of the 2001 and 2003 tax acts, and other savings and health insurance proposals, Congress was asked to cut $138 billion in discretionary spending and $68 billion in mandatory programs. While some questioned whether these ambitious deficit targets could be met, a flood of revenue made it clear the spending reductions necessary to meet the President's long-term deficit in 2010 was significantly lower than had been proposed in January 2005. Despite this windfall, little progress had been made on key spending and tax bills by the summer of 2005. The Congress lost the luxury of time in the fall of 2005. The budget and tax reform processes were turned upside down when the August-September hurricanes hit, energy prices spiked, and avian flu hit the radar screen. By mid-November the House had proposed about $54 billion in total spending reductions and the Senate $35 billion in spending cuts. With hurricane-related spending projected to bump emergency outlays nearly $110 billion in the next four years, the proposed spending cuts fell short of what would have been required to keep the deficit under wraps and fund the extensions of the 2001 and 2003 tax reductions. On the Unified Budget basis, the federal budget deficit is projected to be $319 billion in 2005, $365 billion in 2006, $302 billion in 2007, $282 billion in 2008, and $240 billion in 2009.



IDAHO FORECAST DESCRIPTION

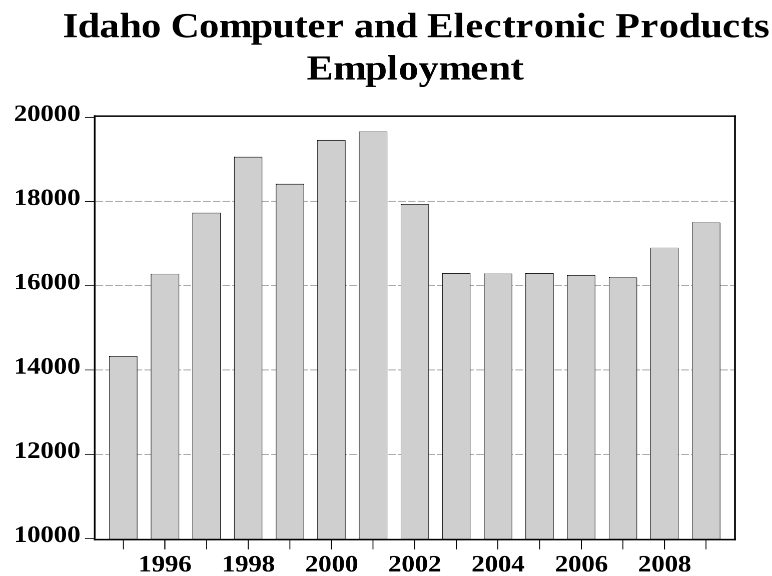
The Forecast Period is the Third Quarter of 2005 through the Fourth Quarter of 2009

Idaho's robust economic growth at the beginning of last year and steady growth since then virtually guarantee 2005 was one of the best years in recent memory. Idaho nonfarm employment started the year by growing at a 6.6% annual rate—its strongest showing since the third quarter of 1993. Total employment also topped the 600,000-job threshold in the same quarter. Much of this strength reflected the red-hot construction sector that was creating jobs almost five times faster than during last year's first quarter. Fueling the jump in construction jobs was housing starts in the Gem State, which advanced at an incredible 62.7% annual pace. Boosted by the strong job gain, Idaho nominal personal income grew by a healthy 8.6% annual pace in the first quarter of 2005. It should also be noted that Idaho nominal personal income grew more than four times faster than national personal income. Adjusting for inflation shows Idaho personal income rose 6.2% in the first quarter of 2005. In comparison, U.S. real personal income was flat during the same quarter.

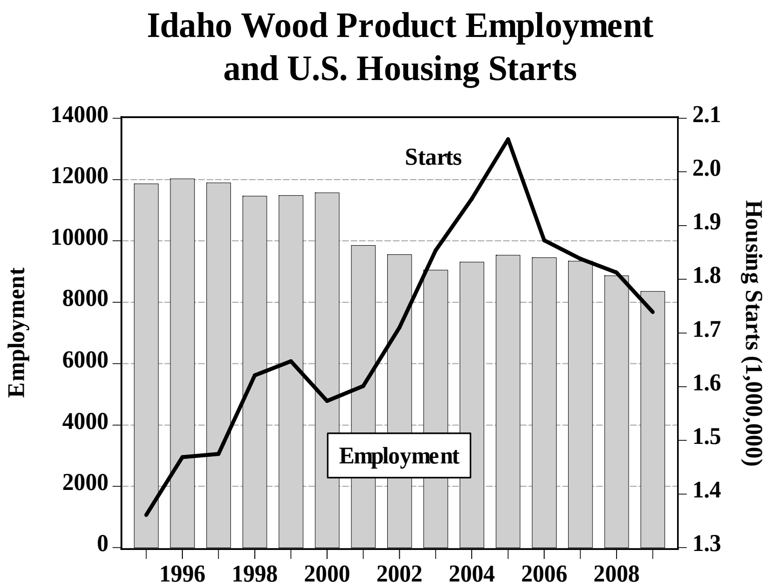
After enjoying an incredible first quarter, Idaho's economy settled into more sustainable growth during the second quarter of 2005. Idaho nonfarm employment increased at a 2.5% rate, as construction employment "slowed' from the previous quarter's 28.1% pace to 6.3% in the second quarter. Idaho housing starts actually declined in the second quarter, but still remained at a very high level. Idaho nominal personal income increased 6.7% in the second quarter while real personal income grew about half as fast. As was the case in the first quarter of 2005, all of these Idaho economic indicators except for construction employment increased faster than their national counterparts.

Idaho nonfarm employment is expected to advance just over 2% in both quarters of the second half of 2005. If this forecast holds, Idaho nonfarm employment will have grown 3.7% in 2005, which would be its best year since 2000. This is more than twice the 1.6% forecasted growth rate for national nonfarm employment. One of the reasons for the Gem State's job advantage is construction. Idaho construction employment is forecast to rise 11.4% in 2005, while national construction employment should grow 3.9%. Idaho nominal personal income should rise 7.2% and real personal income should increase 4.3%. National nominal personal income is anticipated to increase 5.7% and U.S real personal income should grow 2.8%.

Idaho's economy should continue to grow, but not match the high-water mark it set in 2005. However, Idaho's economy will continue to grow faster than the national economy. Idaho nonfarm employment should average about 2% growth per year during the 2006-2009 period, raising employment to 661,700 jobs in the terminal year of the forecast. This is significantly faster than the expected U.S. nonfarm job growth of 1.3% per year. As in 2005, Idaho personal income, both nominal and real, should grow faster than at the national level. Specifically, Idaho nominal personal income is forecast to increase 6.4% annually. National nominal personal income should rise 6.1% per year. It is predicted Idaho real personal income will grow 4.1% annually and U.S. real personal income will advance 3.8%.



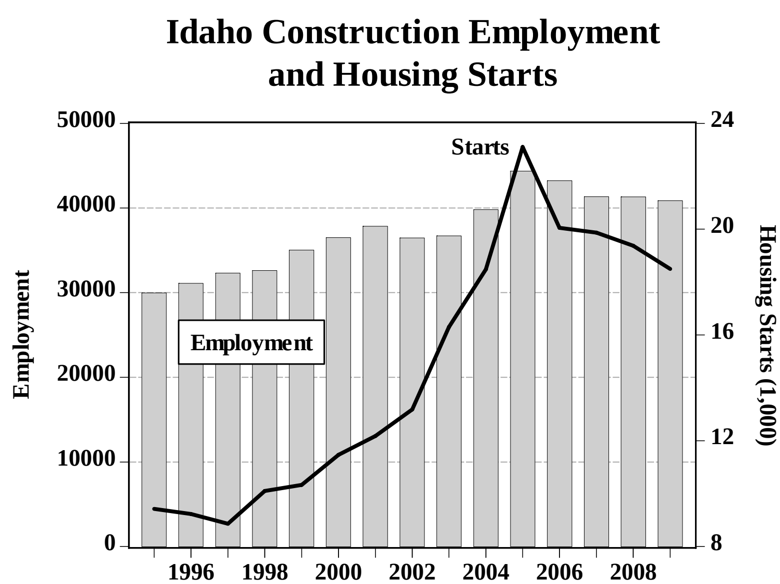
Computer and Electronics: Employment in Idaho’s largest manufacturing sector is forecast to remain flat through 2007. This outlook could be viewed as a bottle that is half empty or half full. A pessimist would point out the forecast is disappointing for the sector that was one of the state’s most reliable economic growth engines in the 1990s. An optimist would note the outlook means an end to the huge job declines that plagued the computer and electronics sector in the first years of the current decade. A review of this sector’s recent history shows why both opinions are valid. During the 1990s several factors combined to create near perfect conditions for rapid growth. These factors included the growing sophistication of personal computer hardware and software that was a boon to local memory manufacturer Micron Technology. In addition, Micron’s computer manufacturing subsidiary grew along with the popularity of personal computers. Hewlett-Packard’s Boise plant prospered thanks to its phenomenally successful laser printer line. Zilog and AMI designed and produced application specific integrated circuits for a wide variety of products. Thanks to the success of these and other Idaho-based high-technology companies, Idaho computer and electronics employment advanced an average of 6.3% per year from 1991 to 2001. At this pace, this sector grew to become the state’s largest manufacturing employer in 1997. Unfortunately, the high-tech industry entered a protracted downturn early this decade that grounded this high-flying sector. The casualty list from this turn of events included most of Idaho’s biggest players. Jabil Circuit, a relatively new arrival on the Gem State’s high-tech scene, halted a planned expansion and eventually closed its doors after customer orders evaporated. In 2001, MicronPC.com, SCP Global Technologies, Micron MCMS, AMI, and Hewlett-Packard reduced their staffs. At first, this sector had enough momentum to weather the slowdown, though its employment growth slowed from 5.7% in 2000 to 1.0% in 2001. Unfortunately, the next year was not as prosperous. The Gem State’s computer and electronics sector suffered another round of layoffs in 2002; this time employment did not just slow, it plunged 8.8%. This decline was followed by a 9.1% drop in 2003, as Micron Technology reduced its Idaho workforce by about 1,000 in early 2003. The good news is Idaho computer and electronics employment stabilized in 2004. However, this sector is not expected to regain all the jobs lost during the recent high-tech slump. Specifically, Idaho computer and electronics manufacturing employment should advance 0.1% in 2005, retreat 0.3% in both 2006 and 2007, increase 4.3% in 2008, and rise 3.5% in 2009. This forecast does carry a couple of downside risks. Hewlett-Packard recently announced it plans to reduce its company workforce by about 15,000 over the next 18 months. However, the company has not released details of the impacts this move will have on the Boise site. Because of this lack of data, no impacts from the company’s latest round of restructuring have been built into this forecast. Another challenge this sector faces is the potential glut of supply in the global semiconductor market. Not all risks are on the downside. Micron Technology is diversifying its product line in order to insulate itself from downturns in the DRAM market. To this end, the company announced it is investing in a new joint venture with Intel to produce NAND flash memory. This type of memory is used in digital cameras, cell phones, and MP3 players.



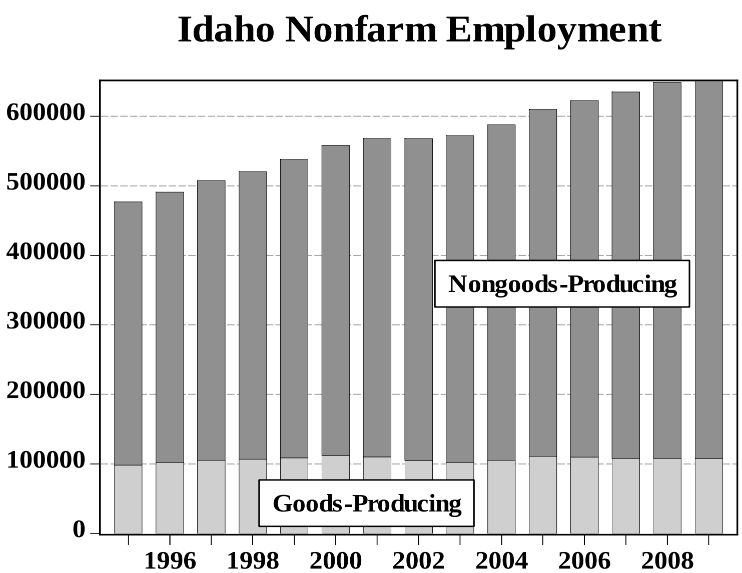
Logging and Wood Products: Employment in Idaho's logging and wood products sector is forecast to remain relatively stable over the next few years before falling, beginning in 2008. The start of this sector's recent round of stability actually began in 2004, when employment advanced significantly for the first time in seven years. Prior to 2004's job gain, this sector's employment had declined 25% from 1996 to 2003. This forecast is an improvement over the one made a year ago. Last January, this sector's employment was projected to begin a new round of declines in 2005, which would leave 8,300 jobs in 2008. In the current forecast, Idaho logging and wood products employment actually increases in 2005. Much of the job improvement reflects the stronger than anticipated housing market. In January 2005, it was believed U.S. housing starts had peaked in 2004 and starts would be softer in 2005. However, this did not happen. National housing starts once again defied almost everyone's expectations by growing above 2 million units in 2005. Not only did this help support Idaho logging and wood products employment in 2005, but by raising the bar, it provides employment stability a ways down the road. Another reason for the more optimistic employment forecast is Idaho logging and wood products employment has remained strong through 2005. The most recent data from the Idaho Department of Commerce and Labor show logging and wood products employment advanced at an 8.6% annual rate in the first quarter of 2005 followed by 10.1% in the second quarter. As a result, mid-year employment was nearly 9,700, which is higher than the previous year's forecast of 9,300 jobs. This sector is also being helped by the weaker U.S. dollar, which is making U.S. wood products more competitive compared to Canadian products. Although this sector out performed the January 2005 forecast, future logging and wood products employment gains will be limited by local capacity constraints and ongoing efficiency measures. Idaho manufacturing capacity is limited because several mills have been closed in recent years and the surviving mills have been forced to produce more products with less labor in order to remain viable. It has been estimated each Idaho logging and wood products employee produced about 215,000 board feet of lumber in 2003, which is well above the 172,000 board feet of lumber per worker produced in 1993. While stronger demand has contributed to the improved outlook, supply issues have not gone away. A major concern is timber supply. The Gem State's logging and wood products sector has been traditionally dependent on timber from public lands, but this source has been shrinking over time. According to the U.S. Forest Service, just over half the timber harvested in Idaho came from public lands in 1993. By 2003, public timber accounted for less than 30% of the total harvest. A significant part of this decline is due to reduced harvests from national forests. The U.S. Forest Service estimates the harvest from Idaho national forests fell from 586.2 million board feet in 1993 to 123.2 million board feet in 2003, a decline of nearly 80%. Looked at another way, in 1993 timber from national forests accounted for more than a third of the total harvest, but just over 12% in 2003. Another concern is the current manufacturing overcapacity. Strong markets in the 1990s led to heavy capital investment in this sector. As a result, it is estimated the industry can produce 20% to 25% more lumber than is being consumed in North America. This capacity is not currently a problem because of strong demand, but can lead to softer prices when demand ebbs.

Mining: After declining for several years, the Gem State's mining sector's employment has been expanding recently. This sector's employment peaked at nearly 3,000 jobs in 1997. From that year until 2002, this sector's payroll shrank by over 40%, or about 1,200 jobs. The number of mining jobs grew slightly in 2003. It then rebounded noticeably over the next two years, taking mining employment above 2,000 jobs in 2005. It is forecast Idaho mining employment will expand slightly in 2006. If the forecast holds, mining will have grown in four consecutive years. The last time this happened was in the mid-1990s. Idaho mining employment is expected to peak at 2,200 in 2006. While this is about 400 higher than its nadir in 2002, it is well below it previous peak of 3,000 jobs in 1997. Unfortunately, this is a recurring theme for this sector. A timeline of Idaho mining employment displays a downward trend in which any given peak in employment is smaller than the preceding peak. While the mining industry has enjoyed employment gains recently, it will eventually succumb to tougher times. As a result, Idaho mining employment is anticipated to decline after this year.

Construction: Much of Idaho's recent economic strength is attributable to the state's healthy construction industry. This strength is evident in both the housing starts and construction employment data. These data measure the industry's robustness in terms of its height and duration. For example, Idaho total housing starts came within striking distance of 25,000 units in the third quarter of 2005—its strongest showing ever. But this is not the only housing record. According to historical records, the number of Idaho housing starts has been growing since 1998, which is the longest on record. During this expansion the number of Idaho housing starts grew from 8,900 in 1997 to 23,100 in 2005—a 160% increase, or about 13% per year. Idaho construction employment has also been on a tear, increasing in 14 of the last 15 years. Construction employment has grown from 20,300 in 1991 to 44,400 in 2005. This sector's growth is even more apparent when compared to total nonfarm employment. From 1991 to 2005, Idaho construction employment advanced by about 5.7% per year. In comparison, Idaho nonfarm employment grew 3.2% annually over this same period. Given the important role the construction sector has played in the state's economic expansion, it is natural to speculate what will happen after the construction boom. Trepidation about the future is valid given the outlook for rising mortgage interest rates and cooling local population growth. These factors suggest Idaho housing starts and construction employment are near their respective peaks. It remains to be seen how fast and how far housing starts and construction jobs will decline. We continue to believe any retreat from recent housing starts and construction employment peaks will be relatively orderly and gradual. First, interest rates and population growth are expected to change gradually, giving the construction industry ample time to adjust. Second, although the Idaho housing sector has been robust, there does not appear to be a serious excess inventory of properties in the state. Third, recent studies to identify communities vulnerable to "housing bubbles" show no Idaho communities are at significant risk (most "bubbles" are concentrated on the coasts). Fourth, Idaho could benefit from a boom in second homes. In light of these factors, Idaho's housing



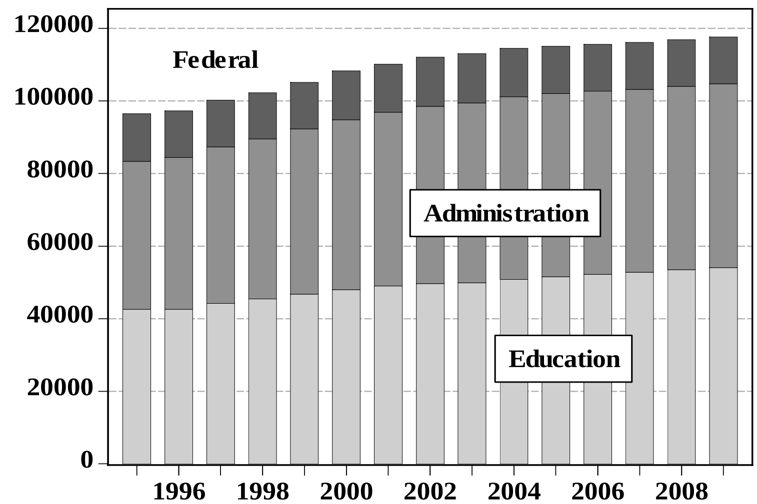
sector is not expected to bust. Instead, both Idaho housing starts and construction employment should decline gradually from their respective record levels over the forecast period.



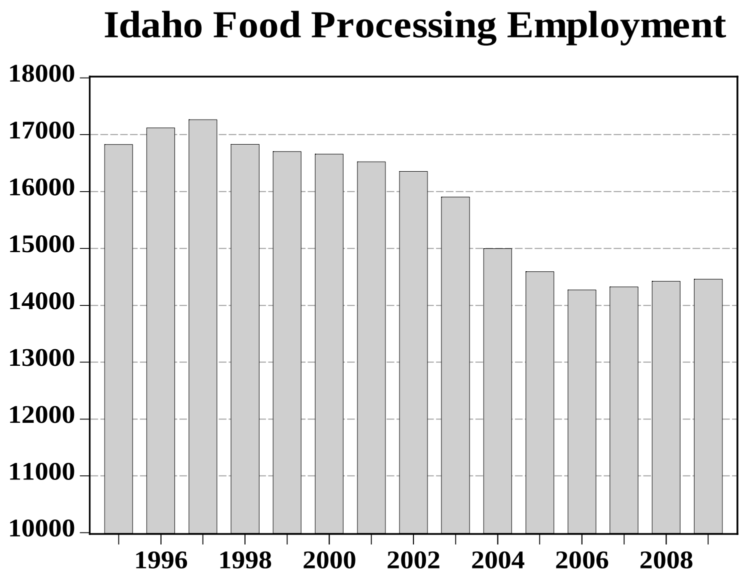
Nongoods-Producing Industries: The nongoods-producing sector has been and will continue to be an important part of Idaho's economy. For purposes of this section, the focus will be on the private, or nongovernmental, portion of nongoods-producing employment. Idaho government employment is covered in the following section. First, in 2005, the private portion of nongoods-producing employment accounted for over six of every ten nonfarm jobs. Second, Idaho nongoods-producing employment grew an average of 3.4% from 1991 to 2005, which was faster than total nonfarm employment's 3.2% annual average pace. Nongoods-producing employment is split into two major categories: services and trade. The services category is the larger of the two, accounting for 73% of the jobs. Services have also been the fastest growing of the two categories from 1991 to 2005. Specifically, services employment advanced an average of 4.3% per year while trade employment grew 2.6% annually. The services category consists of information services; financial activities, transportation, warehousing, and utilities; professional and business services; education and health services; leisure and hospitality services; and other services. The strongest performing components have been professional & business services and education & health services. The former component added jobs at a 6.3% average annual pace from 1991 to 2005 and the latter component's employment grew an average of 5.6%. The leisure and hospitality, information services, and the other services sectors all grew over 3% per year from 1991 to 2005. Over this same period, transportation and utilities increased 2.5% per year. Financial services advanced an average of 2.4%. Retail trade employment expanded at a 2.8% annual pace from 1991 to 2005 and wholesale trade employment increased at a 2.1% annual rate. Over the forecast period, Idaho total private nongoods-producing employment is expected to average 3.3% growth per year. Services employment should expand at a 3.4% annual rate and trade employment should increase an average of 3.1% per year.

Government: Idaho government employment is anticipated to gradually advance over the forecast period, the result of the state's slowing population growth. The positive correlation between government employment and population can be seen in the recent performance of both these measures. Idaho's population expanded nearly 30% from 1990 to 2000. In comparison, the nation's population rose just 13.2% during the same decade. The Gem State's population explosion was fueled by the flood of newcomers into the state. In fact, Idaho net migration was higher than the natural population (births less deaths) increase in every year from 1991 to 2000. The main reason the Gem State proved to be so attractive to newcomers is because in the 1990s it was viewed as an economic oasis in an economic desert. The Gem State proved especially enticing to Californians whose state was suffering its worst downturn since the Great Depression. The burgeoning population stretched the state's existing infrastructure. In an attempt to meet the needs of the growing populace, Idaho's state and local employment payrolls expanded an average of 3.0% per year from 1991 to 2000. Migration into Idaho peaked in 1994, and it has receded since then. In 2001, Idaho's natural population growth was actually above the migration increase, and the population grew about half as fast as in the previous decade. The slower population growth relieved some of the pressures from Idaho state and local governments, resulting in slower job growth beginning in the early years of the current decade. The state's population growth is expected to continue to slow over the next few years, and this will cause Idaho state and local government employment to grow just under 1% per year. The state's education sector will account for virtually all of the job gains over the forecast period, as local districts expand to meet the needs of growing enrollment. For example, the influx of students into the fast growing Meridian Joint School District finds many of its new schools above capacity when they first open their doors. In response, school district patrons passed a bond to fund the district's building needs. Idaho education-related employment should grow by about 2,500 jobs from 2005 to 2009. On the other hand, Idaho noneducation-related government employment will gain less than 200 jobs over the same period. One factor that could affect the state and local government job forecast is the property tax. Rapid escalation of property values in several parts of the state have once again led to concerns about higher property taxes. In response, the Idaho Legislature formed an interim committee that toured the state in order to get citizens' input on this issue. These meetings yielded several ideas for dealing with the property tax situation. It is anticipated the Legislature will use some of these ideas to form a plan to deal with property tax issues during its 2006 session. The adopted plan will influence local governments because these entities are funded by property taxes. Federal government employment should decline over the next few years. This decline reflects Congress' reaction to swelling federal budget deficits. The latest round of base realignments and closures that has been approved by President Bush will affect federal government employment in Idaho. It has been estimated 660 jobs will be lost, with Mountain Home Air Force Base taking the biggest hit. Unfortunately, the impact to the City of Mountain Home will be relatively high because Mountain Home Air Force Base is the city's largest employer.

Idaho Government Employment



Food Processing: One of the strongest characteristics of the one of the state's cornerstone sectors, food processing, is its ability to adapt. This characteristic has helped it evolve in an ever-changing world. Some of the recent changes have been painful. For example, nearly 360 jobs were lost when unfavorable business conditions caused the J.R. Simplot Company to close its Nampa meat packing plant in the fall of 2003. In addition, the J.R. Simplot Company shuttered its Heyburn potato processing plant that was built in 1960 and since then had run continuously. More recently, the Swift and Company beef processing plant fell victim to the embargo of Canadian beef imports into the U.S. Concerns over mad cow disease restrict imports to animals under 30 months old. The Nampa plant processed older animals and was not able to get enough animals to keep operations viable. About four hundred jobs were lost when the company permanently closed the plant. Although some plants have closed, new plants are opening. For example, Gossner Foods, Inc. has opened a new cheese manufacturing plant in Heyburn on land formerly occupied by the J.R. Simplot plant. This fall Marathon Cheese announced it would build a $27-million plant in Mountain Home. Company officials estimate the cheese-packing plant will initially employ 250 workers, but employment should climb to twice that many jobs in five years. This would



make the plant one of Elmore County's largest employers. The new Gossner and Marathon cheese plants are symbolic of the state's growing dairy industry. According to the USDA, the size of Idaho's dairy herd more than doubled from 208,000 cows in 1994 to 424,000 cows in 2004. Over this same period, milk production more than doubled from 3.8 billion gallons to 9.1 billion gallons. The amount of milk sold to plants also more than doubled during this time. Milk cash receipts grew from a little under one-half billion dollars in 1994 to $1.4 billion in 2004. Due to this strong growth, Idaho has moved ahead of Minnesota and within striking distance of Pennsylvania to become the nation's fifth largest milk producer. Cash receipts from dairy farms were higher than those of cattle and calves in three of the last five years on record. One of the reasons for the dairy industry's success is the efficiency of large operations. For example, more than 80% of the state's dairy cows reside in dairies with at least 500 cows. Although cattle and calves cash receipts came in second to dairy receipts, cattle and calves operations are huge contributors to the state's economy. In 2003 and 2004, cattle and calves cash receipts have been over $1 billion, or about a quarter of all farm cash receipts. Idaho's cattle and calves operations received an early Christmas gift this December when the Japanese government announced it was lifting its embargo on American beef. Prior to the ban on U.S. beef, Japan was Idaho's largest agricultural market, representing nearly one-third of all Idaho agricultural exports. The ban caused the state's Japanese exports to drop to just 18% of Idaho's total for 2004.

ALTERNATIVE FORECASTS

Global Insight has assigned a 55% probability of occurrence to its November 2005 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP increases 3.6% in 2005, 3.4% in 2006, 3.1% in 2007, 3.4% in 2008, and 3.1% in 2009;
- U.S. nonfarm employment grows 1.6% in 2005, 1.6% in 2006, 1.4% in 2007, 1.3% in 2008, and 1.0% in 2009;
- the annual U.S. civilian unemployment rate falls gradually from 5.1% in 2005 to 4.6% in 2009;
- consumer inflation is 3.4% in 2005, 2.6% in 2006, 1.5% in 2007, 2.0% in 2008, and 2.2% in 2009;
- the current account deficit is $807 billion in 2005, $902 billion in 2006, $893 billion in 2007, $863 billion in 2008, and $838 billion in 2009; and
- the federal unified budget deficit is $319 billion in 2005, then it recedes to $240 billion in 2009.

OPTIMISTIC SCENARIO

The *Optimistic Scenario* represents the upside to the baseline forecast. It has been assigned a 20% probability of occurrence. Six assumptions distinguish the *Optimistic Scenario* from the *Baseline Scenario*. First, total factor productivity grows faster in this scenario than in the baseline. The faster productivity growth eliminates economic headaches such as inflation, budget deficits, and sluggish growth. It is the main reason economic growth and employment gains are higher in the *Optimistic Scenario*, yet inflation is lower and the federal budget deficit is lower. Second, foreign economic growth is stronger, which shrinks the current account deficit faster than in the baseline case. Third, business investment is stronger. Fourth, the federal budget deficit is lower than in the baseline, the result of stronger receipts and lower outlays caused by the stronger performing economy in the *Optimistic Scenario*. Fifth, better job growth, lower interest rates, higher consumers confidence, and lower long-term mortgage interest rates combine to boost housing starts above its baseline counterpart.

These assumptions produce a rosier outlook for the U.S. economy. Real output advances nearly a percentage point faster in than in the baseline in both 2006 and 2007. Although output growth and labor markets are stronger, inflation is lower because of the stronger dollar and higher productivity gains. The lower inflation rate allows the Federal Reserve to keep the federal funds rate below the baseline level. Since productivity growth is faster than in the baseline, potential GDP is higher in the *Optimistic Scenario* compared to the *Baseline Forecast*. Job growth is also stronger. Nonfarm employment is 972,300 higher than in the baseline at the end of 2006 and 1.62 million higher at the end of 2007. Not surprisingly, the U.S. unemployment rate is lower in this scenario than in the *Baseline Scenario*.

Ironically, Idaho's economic growth is slower in this scenario than in the baseline. This occurs because higher productivity, which is one of the cornerstones of the national forecast, means output is produced with fewer hours. This key feature of the *Optimistic Scenario* translates into fewer jobs for the Gem State. Specifically, Idaho nonfarm employment is expected to advance an average of 1.9% to 656,600 jobs in 2009 in the *Optimistic Scenario*. This is slower than its baseline counterpart, which increases 2.1% annually to 661,700. Idaho's goods-producing sector is hit the hardest. In 2009, this sector's employment, which consists of manufacturing, mining, and construction, is about 4,300 lower (4%) than in the *Baseline Scenario*. Nongoods-producing employment is down just 0.1% in 2009 compared to its baseline

IDAHO ECONOMIC FORECAST
BASELINE AND ALTERNATIVE FORECASTS
JANUARY 2006

	BASELINE					OPTIMISTIC					PESSIMISTIC				
	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
GDP (BILLIONS)															
Current $	12,486	13,248	13,920	14,704	15,517	12,491	13,345	14,096	14,902	15,708	12,482	13,197	13,772	14,621	15,614
% Ch	*6.4%*	*6.1%*	*5.1%*	*5.6%*	*5.5%*	*6.4%*	*6.8%*	*5.6%*	*5.7%*	*5.4%*	*6.4%*	*5.7%*	*4.4%*	*6.2%*	*6.8%*
2000 Chain-Weighted	11,140	11,522	11,876	12,278	12,658	11,144	11,628	12,090	12,558	12,979	11,136	11,447	11,601	11,908	12,250
% Ch	*3.6%*	*3.4%*	*3.1%*	*3.4%*	*3.1%*	*3.6%*	*4.3%*	*4.0%*	*3.9%*	*3.4%*	*3.5%*	*2.8%*	*1.3%*	*2.6%*	*2.9%*
PERSONAL INCOME - CURR $															
Idaho (Millions)	40,084	42,918	45,566	48,336	51,307	40,071	42,576	44,934	47,390	49,964	40,078	43,264	46,743	50,210	54,273
% Ch	*7.2%*	*7.1%*	*6.2%*	*6.1%*	*6.1%*	*7.2%*	*6.3%*	*5.5%*	*5.5%*	*5.4%*	*7.2%*	*8.0%*	*8.0%*	*7.4%*	*8.1%*
U.S. (Billions)	10,269	10,938	11,583	12,269	12,990	10,270	10,976	11,673	12,377	13,083	10,267	10,938	11,581	12,292	13,131
% Ch	*5.7%*	*6.5%*	*5.9%*	*5.9%*	*5.9%*	*5.7%*	*6.9%*	*6.4%*	*6.0%*	*5.7%*	*5.7%*	*6.5%*	*5.9%*	*6.1%*	*6.8%*
PERSONAL INCOME - 2000 $															
Idaho (Millions)	36,015	37,669	39,290	40,797	42,323	36,016	37,559	39,096	40,513	41,897	35,990	37,416	39,161	40,682	42,454
% Ch	*4.3%*	*4.6%*	*4.3%*	*3.8%*	*3.7%*	*4.3%*	*4.3%*	*4.1%*	*3.6%*	*3.4%*	*4.2%*	*4.0%*	*4.7%*	*3.9%*	*4.4%*
U.S. (Billions)	9,227	9,600	9,987	10,355	10,715	9,231	9,682	10,156	10,581	10,971	9,220	9,460	9,703	9,960	10,272
% Ch	*2.8%*	*4.1%*	*4.0%*	*3.7%*	*3.5%*	*2.9%*	*4.9%*	*4.9%*	*4.2%*	*3.7%*	*2.8%*	*2.6%*	*2.6%*	*2.6%*	*3.1%*
TOTAL NONFARM EMPLOYMENT															
Idaho	609,974	622,677	635,132	648,975	661,695	609,922	622,010	632,882	645,394	656,604	609,965	622,227	632,332	645,486	659,672
% Ch	*3.7%*	*2.1%*	*2.0%*	*2.2%*	*2.0%*	*3.7%*	*2.0%*	*1.7%*	*2.0%*	*1.7%*	*3.7%*	*2.0%*	*1.6%*	*2.1%*	*2.2%*
U.S. (Thousands)	133,616	135,693	137,599	139,332	140,715	133,623	136,342	139,002	141,167	142,593	133,607	135,362	136,009	136,787	138,313
% Ch	*1.6%*	*1.6%*	*1.4%*	*1.3%*	*1.0%*	*1.6%*	*2.0%*	*2.0%*	*1.6%*	*1.0%*	*1.6%*	*1.3%*	*0.5%*	*0.6%*	*1.1%*
GOODS-PRODUCING SECTOR															
Idaho	111,124	110,006	108,052	108,101	107,489	111,082	109,696	106,464	105,113	103,197	111,185	110,851	107,331	107,536	108,228
% Ch	*5.4%*	*-1.0%*	*-1.8%*	*0.0%*	*-0.6%*	*5.4%*	*-1.2%*	*-2.9%*	*-1.3%*	*-1.8%*	*5.5%*	*-0.3%*	*-3.2%*	*0.2%*	*0.6%*
U.S. (Thousands)	22,136	22,263	22,222	22,188	22,157	22,139	22,426	22,660	22,779	22,751	22,148	22,417	21,920	21,302	21,176
% Ch	*1.2%*	*0.6%*	*-0.2%*	*-0.2%*	*-0.1%*	*1.2%*	*1.3%*	*1.0%*	*0.5%*	*-0.1%*	*1.2%*	*1.2%*	*-2.2%*	*-2.8%*	*-0.6%*
NONGOODS-PRODUCING SECTOR															
Idaho	498,849	512,671	527,080	540,874	554,205	498,840	512,315	526,418	540,281	553,407	498,780	511,377	525,002	537,950	551,444
% Ch	*3.4%*	*2.8%*	*2.8%*	*2.6%*	*2.5%*	*3.4%*	*2.7%*	*2.8%*	*2.6%*	*2.4%*	*3.4%*	*2.5%*	*2.7%*	*2.5%*	*2.5%*
U.S. (Thousands)	111,480	113,430	115,376	117,144	118,558	111,484	113,916	116,341	118,388	119,842	111,458	112,945	114,089	115,485	117,137
% Ch	*1.7%*	*1.7%*	*1.7%*	*1.5%*	*1.2%*	*1.7%*	*2.2%*	*2.1%*	*1.8%*	*1.2%*	*1.7%*	*1.3%*	*1.0%*	*1.2%*	*1.4%*
SELECTED INTEREST RATES															
Federal Funds	*3.2%*	*4.7%*	*4.8%*	*4.8%*	*5.0%*	*3.2%*	*4.2%*	*4.3%*	*4.3%*	*4.5%*	*3.2%*	*5.6%*	*7.1%*	*7.4%*	*6.4%*
Bank Prime	*6.2%*	*7.7%*	*7.8%*	*7.8%*	*8.0%*	*6.2%*	*7.2%*	*7.3%*	*7.3%*	*7.5%*	*6.2%*	*8.6%*	*10.1%*	*10.4%*	*9.4%*
Existing Home Mortgage	*5.9%*	*6.8%*	*6.9%*	*7.0%*	*7.3%*	*5.9%*	*6.4%*	*6.4%*	*6.5%*	*6.7%*	*5.9%*	*8.6%*	*9.3%*	*7.5%*	*7.6%*
INFLATION															
GDP Price Deflator	*2.8%*	*2.6%*	*1.9%*	*2.2%*	*2.4%*	*2.8%*	*2.4%*	*1.6%*	*1.8%*	*2.0%*	*2.7%*	*2.8%*	*3.0%*	*3.4%*	*3.8%*
Personal Cons Deflator	*2.8%*	*2.4%*	*1.8%*	*2.2%*	*2.3%*	*2.8%*	*2.4%*	*1.6%*	*1.8%*	*2.0%*	*2.9%*	*3.8%*	*3.2%*	*3.4%*	*3.6%*
Consumer Price Index	*3.4%*	*2.6%*	*1.5%*	*2.0%*	*2.2%*	*3.3%*	*2.0%*	*1.1%*	*1.6%*	*1.9%*	*3.4%*	*4.0%*	*2.5%*	*2.9%*	*3.5%*

Forecast Begins the THIRD Quarter of 2005

counterpart. The lower employment outlook drags down Idaho personal income. In the *Optimistic Scenario*, Idaho nominal personal income growth averages 5.7% from 2005 to 2009 and Idaho real personal income growth averages 3.9% over this same period. In the *Baseline Scenario*, Idaho nominal and real personal incomes average 6.4% and 4.1%, respectively.

PESSIMISTIC SCENARIO

The downside risks to the baseline scenario are explored in the *Pessimistic Scenario.* Also known as the *Stagflation Scenario,* this alternative forecast has been assigned 25% probability of occurrence. This alternative assumes there is less spare capacity in the U.S. and the rest of the world. Without this cushion, prices rise faster than in the baseline case. Inflation is also fueled by the assumption of a weaker dollar, which pushes up import prices. The dollars loses nearly a fifth of its value versus the currencies of its major trading partners over the course of the forecast, which is much steeper than the dollar's decline in the baseline case. The weaker dollar also causes foreign investors to invest in other currencies, which lowers the flow of foreign funds into the U.S., putting upward pressure on domestic interest rates. The pessimistic simulation also includes a housing price bubble that ends inauspiciously. The housing bubble bursts next year, and by 2007, the average price tumbles more than 20% below its year-earlier value, and then stays below its baseline value through the forecast period.

Consumer confidence suffers at the hands of higher interest rates and persistently high energy prices. Consumers rein in discretionary spending and the U.S. economy slows. Core inflation stabilizes, but fails to retreat sufficiently for the Federal Reserve. In response, the nation's central bank declares war on rising prices. The Federal Reserve raises its federal funds rate steadily to a peak of 7.75% in the first quarter of 2008, which is 300 basis points higher than in the baseline. This bellwether rate falls gradually to 6.25% by the end of the forecast horizon, but this is still much higher than the baseline's 5.00%. With the weak dollar boosting trade, GDP growth begins to accelerate, bringing the unemployment rate down. As investment picks up, potential output rises relative to actual output, easing upward pressures on prices. Despite the multitude of challenges, the economy does not sink into a recession in this alternative. Instead, it fails to come as close to its potential as in the baseline.

Given the lower trajectory of the national economy presented in this scenario, it is no surprise Idaho nonfarm employment underperforms its baseline counterpart. As the accompanying table shows, Idaho nonfarm job growth is weaker than in the baseline in every year of the forecast, so that by 2009 employment is about 2,000 lower than the baseline's 661,700 jobs. What is interesting is Idaho personal income is slightly stronger than in the baseline case. For example, Idaho nominal personal income is $54.3 billion in 2009 in this scenario compared to $51.3 billion in the baseline. While most of the difference is explained by the higher inflation in the *Optimistic Scenario*, it does not explain all of the difference. This can be seen in the Idaho real personal income forecast for 2009. Even after adjusting for this scenario's higher inflation, Idaho real personal income is slightly higher in 2009 in this scenario compared to the *Baseline Scenario*.